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SUBJECT: Report to Congress on Chinese Espionage Activities
Against the United States

Background

The "Intelligence Authorization Act for Fiscal Year 1998," Section 308, requires that the Director of Central Intelligence and the Director of the Federal Bureau of Investigation, jointly and in consultation with the heads of other appropriate federal agencies, prepare and transmit to Congress a report on the intelligence activities of the People's Republic of China (PRC) directed against or affecting the interests of the United States. This is the second annual submission of that report.

Overview of the Threat

Beijing's national security priorities include maintaining internal stability, gathering science and technology information to advance China's economic development, and monitoring as well as influencing developments related to Taiwan and worldwide perceptions of China. Its foreign intelligence collection goals include gathering information about key players and developments in countries that might affect China's interests. Penetrating the U.S. intelligence community is a key objective of the Chinese.

Due to its limited resources, much of China's intelligence collection in 1998 continued to be accomplished by a network of nonprofessional individuals and organizations acting outside the direction and control of the intelligence services. Non-intelligence organizations—such as private companies, research institutes, and defense facilities—conduct independent and uncoordinated collection activities to acquire sensitive information and technology. The Chinese intelligence services have a long history of using Chinese students studying abroad to collect information, either formally for those services or informally for their home-based research institutes or universities. Many Chinese students in U.S. graduate schools are studying hard sciences and are able to collect a wide variety of information that is of value to China's efforts to ascend the technology ladder.

Because the Chinese consider themselves to be in a developmental "catch-up" situation, their collection program tends to have a comparatively broad scope. Chinese collectors target information and technology on anything of value to China,

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which leads them to seek to collect open-source information as well as restricted/proprietary and classified information.

China's intelligence infrastructure includes a variety of government entities. The following are assumed to have directed resources in 1998 to collection activities targeted at the United States:

- The Ministry of State Security (MSS) is responsible for civilian collection of foreign intelligence and for counterintelligence operations in China and abroad.
- The Military Intelligence Department of the People's Liberation Army General Staff (MID/PLA or Second Department) collects military and technological information and foreign intelligence.
- The Liaison Department, a unit in the PLA's General Political Department, collects intelligence on Taiwan.

Foreign Intelligence Collection

Political Espionage: Beijing continues to view the United States as one of its major targets for political collection. It focuses on the foreign policies and intentions of the United States as well as information on U.S. leaders and sensitive bi- or multi-lateral negotiations.

Military Espionage: As the most advanced military power with respect to equipment and strategic capabilities, the United States continues to be the MID/PLA's primary target. Military intelligence collection against the United States is primarily conducted by military attachés assigned to the Defense Attaché's Office in the Chinese Embassy in Washington and the Military Staff Committee at the United Nations in New York City. For the most part, attachés openly collect information from Western publications as well as from their contacts in accordance with MID/PLA directives. Nonetheless, since 1987 the FBI and the U.S. Customs Service have detected and interdicted at least two MID/PLA clandestine collection operations in the United States.

Chinese attempts to obtain U.S. military and military-related technology—reflecting recognition of the overwhelming technological superiority enjoyed by the Western alliance in the Gulf War and Kosovo—have increased since the early 1990s. Other topics of interest to the MID/PLA are Sino-U.S. relations, U.S. military operations overseas, and the sale of U.S. military technology to Taiwan.

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Recent FBI Case: The sentencing of Dr. Peter H. Lee on 26 March 1998 brought a close to an important FBI case that had its origins in the 1980s. Lee, who had pleaded guilty the previous December to espionage charges for transmitting classified national defense information to the PRC, had admitted to sharing classified information with Chinese scientists during lectures he gave in the PRC in 1985 and 1997. Lee was also charged with making false statements to a government agency when he denied giving technical talks to the Chinese. Lee received a suspended five-year prison term, one year of incarceration, three years of supervised probation, a \$20,000 fine, and 3,000 hours of community service.

Economic Espionage: In 1998 China's collection of open source, sensitive, and restricted proprietary/trade secret U.S. technology and economic information, particularly advanced civilian, military, dual-use and bio-technology, remained a priority. China's official collectors of economic intelligence prefer to use collection methods that are low-key and nonthreatening. For example, the MSS, operating both in the United States and in China, tries to collect proprietary or sensitive U.S. information and technology in small increments, involving a large number of people for an extended period of time.

The MSS is particularly active against U.S. businessmen and other Westerners inside China, where MSS officers can be aggressive. Because most Chinese share a common cultural and historical background, Chinese leaders refer to all individuals of Chinese ancestry as "overseas" Chinese. When approaching an individual of Chinese origin, the Chinese intelligence services attempt to secure his or her cooperation by playing on this shared ancestry.

The MSS and the MID/PLA play only a small part in China's overall S&T collection process. Some of the thousands of Chinese students, scientists, researchers, and other visitors to the United States also gather information, working mostly for the benefit of government-controlled, end-user organizations and other scientific bureaus, research institutes, and enterprises. The MSS, when requested, assists these institutions by matching their information needs with assets the service has developed in the United States or elsewhere.

Chinese nationals working abroad lawfully gather most S&T and economic intelligence through open sources, such as U.S. university libraries, research institutions, the Internet, and

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unclassified databases, providing the Chinese Government with highly valued, yet unclassified information.

PRC scientists, through mutually beneficial scientific exchange programs, gather S&T information through U.S. national laboratories. Programs to enhance cooperation between the two countries have created an atmosphere of informational exchange, creating vulnerabilities in safeguarding U.S. technical intelligence. These vulnerabilities emphasize the significant difficulty the United States encounters in detecting PRC espionage activity.

Political Influence Activities

China continues to devote attention to building political influence in the United States. The increased emphasis dates from the June 1995 visit of Taiwan President Lee Teng-hui—a visit that caused Chinese leaders to redirect resources towards gaining a better understanding of Congress and greater political influence in the United States. The same year, Chinese leaders created the Central Leading Group for U.S. Congressional Affairs to oversee the task of increasing support for Chinese objectives.

Much like the rest of the world, the Chinese Government continues to seek influence in Congress through various means, including inviting Congressional members to visit the PRC, lobbying ethnic Chinese voters and prominent U.S. citizens, and engaging U.S. business interests to weigh in on issues of mutual concern.

Use of Commercial Entities for Intelligence Operations

During the past 20 years, China has established a notable intelligence capability in the United States through its commercial presence.

China's commercial entities play a significant role in its pursuit of proprietary/trade secret U.S. technology. The vast majority of Chinese commercial entities in the United States are legitimate companies; however, some are a platform for intelligence collection activities. Although a commercial entity may not be directly involved in the acquisition of information/technology, it may provide cover for both professional and non-professional intelligence collectors. Professional collectors are usually affiliated with one of China's intelligence services, while non-professionals usually collect for themselves. These collectors enter the United States to gather sensitive and/or restricted proprietary/trade secret

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information or to act as a liaison to consumers of intelligence back in China.

The primary targets from which China seeks to acquire sensitive and restricted proprietary/trade secret U.S. technology are the U.S. Government, private U.S. corporations, academic institutes, laboratories, as well as persons involved in sensitive and/or restricted work. These operations are usually low-key and singular in nature, thus creating a significant counterintelligence dilemma for the FBI.

Propaganda and Perception Management

China primarily uses government-owned or government-controlled press to ensure its views on policy issues are heard in the United States. For example, Wen Wei Po, which appears as a periodic supplement to Chinese-language newspapers published in the United States, is a favored outlet for reaching ethnic Chinese audiences, whose perspectives in turn can influence the broader public's views of China.